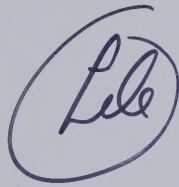


AR21



Sklar-Peppler



SKLAR MANUFACTURING LIMITED
ANNUAL REPORT 1980

Heintzmann Ltd (Pianos)

SKLAR MANUFACTURING LIMITED

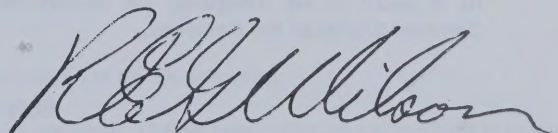
NOTICE OF ANNUAL AND GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT the Annual and a General Meeting of the shareholders of Sklar Manufacturing Limited will be held in the "Manitoba" Room of the Royal York Hotel, Toronto, Ontario on Tuesday, April 29, 1980 at the hour of 3:30 in the afternoon (Toronto time) for the purpose of:

1. Receiving, considering and, if thought fit, approving the report of the Directors, the Consolidated Balance Sheet and the Consolidated Statements of Earnings, Deficit and Changes in Financial Position together with the report of the Auditors thereon for the year ended December 31, 1979;
2. Electing Directors for the ensuing year;
3. Appointing the Auditors and authorizing the Directors to fix their remuneration;
4. Considering and, if thought fit, confirming By-Law No. 13 of the Company being a by-law to increase the remuneration paid to the directors of Sklar Manufacturing Limited. A copy of By-Law No. 13 is set forth as Schedule "A" to the accompanying Information Circular and Proxy Statement.
5. Transacting such other business as may properly come before the meeting.

DATED at Whitby, Ontario this 29th day of February, 1980.

BY ORDER OF THE BOARD OF DIRECTORS



R.E.G. Wilson,
Secretary-Treasurer.

If you are not able to be present, please sign and return the attached Proxy.

SKLAR MANUFACTURING LIMITED

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

Proxies are being solicited on behalf of the management of Sklar Manufacturing Limited (the "Company") in connection with the Annual and General Meeting of shareholders of the Company (the "Annual Meeting") to be held on Tuesday, April 29, 1980 at the time and place and for the purposes set out in the notice calling such Annual Meeting.

The persons mentioned in the forms of proxy have been designated to represent the management at the Annual Meeting and at any adjournment or adjournments of such meeting.

The cost of solicitation will be borne by the Company. It is expected that the solicitation will be primarily by mail but proxies may also be solicited personally by representatives of the Company. No remuneration will be paid to any person for soliciting proxies, but the Company may, upon request, pay to brokerage firms, fiduciaries and other persons holding shares in their names for others, the charges entailed for sending out proxies to the persons for whom they hold shares.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

Holders of Common Shares of record at the time the Annual Meeting is held will be entitled to one vote for each Common Share held.

The Company has outstanding 2,402,969 Common Shares.

To the knowledge of the directors or senior officers of the Company the following own Common shares carrying more than 10% of the voting rights attached to all Common shares of the Company:

Mr. Harry Sklar, Mr. Joseph Sklar, Mr. Louis Sklar and Mr. Samuel Sklar through various family corporations in which the Messrs. Sklar and their wives are shareholders and directors and through various family trusts in which Messrs. Sklar and their wives are trustees have control over 496,995 Common Shares.

As a result of the foregoing, the Messrs. Sklar have voting rights over approximately 21% of the outstanding Common Shares of the Company.

ELECTION OF DIRECTORS

At the annual Meeting the term of office for each director will expire and a board of nine directors is to be elected, to hold office until the next Annual Meeting of Shareholders or until their successors are elected, and it is the intention of the persons named in the enclosed form of proxy to vote such proxy for the election of the persons listed hereunder.

The management does not contemplate that any nominee will be unable to serve as a director for any reason, but should this be the case, the persons named in the accompanying form of proxy reserve the right to vote for another person of their choice in his place and stead.

VOTING OF PROXIES

The proxies hereby solicited by management will be voted and where the shareholders whose proxy is solicited specifies a choice for or against approval of the matter referred to in the notice calling the meeting of shareholders referred to above, such proxy will be voted in accordance with such specification: IF A CHOICE IS NOT SPECIFIED IN RESPECT OF SUCH MATTERS THE PROXY WILL BE VOTED IN FAVOUR OF APPROVAL.

The management does not know of any other matters to be brought before the meeting other than those set forth in the notice of the meeting. If any other matters which are not now known to the management should properly come before the meeting, the accompanying proxy will be voted on such matters in accordance with the best judgment of the persons voting the proxy.

A SHAREHOLDER DESIRING TO APPOINT SOME PERSON OTHER THAN A PERSON NAMED IN THE ENCLOSED FORM OF PROXY TO REPRESENT HIM AT THE MEETING MAY DO SO BY STRIKING OUT THE NAMES OF THE PERSONS PRINTED IN THE FORM OF PROXY AND INSERTING SUCH OTHER PERSON'S NAME IN THE BLANK SPACE PROVIDED FOR SUCH PURPOSE.

A PROXY NEED NOT BE A SHAREHOLDER OF THE COMPANY.

By Order of the Board of Directors

WHITBY, ONTARIO
February 29, 1980



R.E.G. Wilson,
Secretary-Treasurer.

SCHEDULE "A"

BY-LAW NO. 13

being a By-law to increase the remuneration paid to the Directors of Sklar Manufacturing Limited.

BE IT ENACTED and it is hereby enacted as a by-law of the Company as follows:

Paragraph no. 41 of By-Law No. 10 of the Company is repealed and replaced by the following:

"41. *Remuneration and Expenses* — Each director who is not also an employee of the Corporation or any subsidiary of the Corporation, shall be paid the sum of \$1,750 per annum payable quarterly for acting as a director plus in addition thereto the sum of \$300 for each meeting of the Board or any Committee thereof attended by such director. Each such director shall also be entitled to be reimbursed for travelling and other expenses properly incurred by such director in attending meetings of the Board or any Committee thereof."

2. This by-law, subject to confirmation at a meeting of shareholders in accordance with The Business Corporations Act (Ontario) shall be effective October 1, 1979 and shall remain effective for each succeeding fiscal year until amended or repealed and all by-laws and resolutions of the Company inconsistent herewith are hereby amended, modified and revised in order to give effect to this by-law.

The Company has an Executive Committee of its Board of Directors and is required to have an Audit Committee. Those directors who are members of such committees are indicated below.

The names of the present directors (all of whose terms of office expire at the Annual Meeting and who are nominees for re-election as directors), their position with the Company, the year in which they became a director of the Company and the approximate number of shares of the Company beneficially owned by them, directly or indirectly, as of February 15, 1980 are as follows:

Name	Position with the Company	Principal Occupation	Director Since	Number of Common Shares Held Beneficially
*D.R. Annett	Director	President, Annett Partners Limited	1965	2,000
*A.L. Beattie, Q.C.	Director	Managing Partner, Osler, Hoskin & Harcourt	1965	286
P.A. Bienvenu	Director	President, Howard-Bienvenu Inc.	1977	1
P.F. Black	Director	President, Black, Galper & Heessels Limited	1967	100
E.T. Cohen	Director	Managing Director, ECO-Markets Research and Advisory Associates, Limited	1967	1
J. Sklar	Senior Vice-President and Director	Executive, Sklar Manufacturing Limited	1966	20,001
*L. Sklar	President and Director	Executive, Sklar Manufacturing Limited	1966	20,002
S. Sklar	Chairman of the Board and Director	Executive, Sklar Manufacturing Limited	1966	20,001
J.B. Whitely	Director	President, Crown Trust Company	1969	601

*Member of Executive Committee and Audit Committee

INFORMATION AS TO SHARES BENEFICIALLY OWNED

The information as to shares beneficially owned as set forth in the foregoing portions of this Information Circular is not within the knowledge of management and has been furnished by the persons named as the beneficial owners of such shares.

REMUNERATION OF DIRECTORS AND OFFICERS

	Nature of Remuneration		
	Aggregate Remuneration	Pension Benefits	Retirement Benefits
9 directors from the Company and wholly owned subsidiaries	\$ 19,446	\$ —	\$ —
6 senior officers in receipt of the largest amounts of remuneration (including deferred compensation) from the Company and subsidiaries	\$582,554 <u>\$602,000</u>	\$ — <u> </u>	\$ — <u> </u>

The estimated aggregate cost to the Company and its subsidiaries in the last completed financial year of all pension benefits, other than the Canada Pension Plan, proposed to be paid under any normal pension plan in the event of retirement at normal retirement age, directly or indirectly by the Company and its subsidiaries to the senior officers of the Company as a group was \$117,800. None of the directors participate in such benefits.

BY-LAW NO. 13

The Board of Directors at a meeting held on November 20, 1979 enacted by-law No. 13 of the Company, a copy of which is attached as Schedule "A", to increase the remuneration paid to the directors of the Company. Pursuant to such By-Law No. 13, if approved by the shareholders of the Company, the directors' remuneration would be increased as follows:

	From	To	% Increase
Annual Stipend	\$1,500	\$1,750	17.0
Per meeting fee (Board or Committee)	\$ 250	\$ 300	20.0

Management is of the opinion that the proposed increase to the directors is reasonable since there has been no increase in directors' fees since 1965. At this stage in the Company's recovery, management feels that this is a minimum increase which should be made in the fees paid to the Company's directors; however, it also recognizes that additional increases will be required in order to bring the remuneration to the appropriate level paid to directors in similar positions. As the Company progresses, management intends to recommend further increases in the directors' fees.

This by-law is subject to confirmation by the shareholders and in the event that such confirmation and approval is not given, the by-law will be null and void.

APPOINTMENT OF AUDITORS

It is intended to vote the proxies hereby solicited to appoint Messrs. Soberman, Isenbaum & Colomby, Chartered Accountants, as auditors of the Company to hold office until the next annual meeting of shareholders and to authorize the directors to fix their remuneration. Messrs. Soberman, Isenbaum & Colomby were first appointed auditors of the Company on April 27, 1967.

REVOCABILITY OF PROXIES

A proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is exercised.

SKLAR MANUFACTURING LIMITED

DIRECTORS

- * DOUGLAS R. ANNETT
- ** Don Mills, Ontario
President, Annett Partners Limited
- * ALLAN L. BEATTIE, Q.C.
Toronto, Ontario
Managing Partner, Osler, Hoskin & Harcourt
- PAUL A. BIENVENU
Montreal, Quebec
President, Howard Bienvenu Inc.
- PAUL F. BLACK
Toronto, Ontario
President, Black, Galper & Heessels Limited
- EDWIN T. COHEN
Willowdale, Ontario
*Managing Director, ECO Markets Research
and Advisory Associates Ltd.*
- JOSEPH SKLAR
Toronto, Ontario
*Senior Vice-President
Sklar Manufacturing Limited*
- * LOUIS SKLAR
** Oshawa, Ontario
*President
Sklar Manufacturing Limited*
- SAMUEL SKLAR
Toronto, Ontario
*Chairman of the Board
Sklar Manufacturing Limited*
- ** JACK B. WHITELY
Oakville, Ontario
*Chairman and Chief Executive Officer,
Calvert-Dale Estates Ltd.*

* Member of Executive Committee

** Member of Audit Committee

OFFICERS

- SAMUEL SKLAR
Chairman of the Board
- LOUIS SKLAR, B.A.Sc.,
President
- JOSEPH SKLAR
Senior Vice-President
- R.E.G. WILSON, B. Comm., C.A.,
Vice-President, Finance and Secretary
- J.E.R. DEMERS, R.I.A.
Treasurer

HEAD OFFICE

617 Victoria Street East, Whitby, Ontario L1N 5S7 Telephone (416) 668-3315 or (416) 924-7

PLANTS

Whitby, Ontario
Weston, Ontario

Hanover, Ontario
Southampton, Ontario

SHOWROOMS

Downsview, Ontario

Montreal, Quebec

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto and Montreal

BANKERS

The Royal Bank of Canada

AUDITORS

Soberman, Isenbaum & Colomby

STOCK LISTING

Toronto Stock Exchange (SKM)

PRESIDENT'S REPORT TO SHAREHOLDERS

1980 was a landmark year for our company, for two reasons. First, it recorded the highest sales and profits in its history. Second, and perhaps more important, the accomplishments of 1980 have clearly completed the recovery process that began in 1977 when the company was in severe financial difficulty.

During 1980, we made major progress in a number of areas. Some of the highlights are as follows:

- Sales were \$69,795,000, which represents an increase of 17% over 1979 sales of \$59,634,000. At the same time, profits before taxes and extraordinary income, which is the figure that reflects the effectiveness of the company's operations were \$5,006,000. This represents an increase of 87% over the 1979 figure of \$2,677,000.
- Long-term debt was reduced from \$10,000,000 to \$7,800,000 as a result of a prepayment of \$2,200,000. Also, during 1980, the company undertook capital projects involving a total cost of approximately \$1,150,000 for the purpose of upgrading its existing production facilities. After this prepayment and the investment in capital projects, the company remains in an excellent working capital position, with a current ratio of better than 2.6:1.
- On November 27th, 1980, the company announced that for the first time, it will begin paying a dividend on its common shares. The first half-yearly dividend of 5¢ per share was paid on January 20th, 1981.
- As a result of the improvement in the financial position of the company, management was successful in negotiating the termination of the federal and provincial government guarantees on \$4,750,000 of term loan. This will result in a reduction of debt servicing costs because there was a 1% charge attached to these guarantees.
- The company began a national advertising program for the purpose of telling the consumer what Sklar-Peppler represents. We have established a position of industry leadership in terms of style, comfort, quality, and, indeed, in "value" in the broadest sense. We have now come to the point where we must firmly establish the public image that this position of leadership warrants.
- We negotiated the purchase of all of the outstanding shares of Heintzman Limited, a well-known manufacturer of quality pianos. Heintzman had encountered severe financial difficulties as a result of losses which had accumulated over the past number of years, and at the time of the purchase, it was in receivership. We believe that this acquisition will prove to be a benefit to our company. The acknowledged high standard of quality of its products is in keeping with the Sklar-Peppler image. Also its manufacturing facilities, located in Hanover, Ontario, are larger than required to produce pianos for the foreseen-

able future. This will permit us to implement a much needed increase in production of Sklar-Peppler wood furniture products.

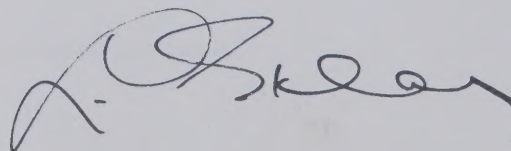
- The company's manufacturing facilities were able to improve levels of productivity and efficiency, notwithstanding the fact that they were faced with a significantly more complex product mix, resulting from an increased emphasis on variety and fashion.

There appears to be unanimous agreement in the business community that the economy will perform poorly in the first half of 1981. Some recovery is anticipated for the second half, but for the year as a whole, there will be, at best, insignificant growth. Although this does not augur well for our industry, we, at Sklar, have reason to be optimistic. Our backlog of orders was at relatively high levels for all divisions as we entered 1981, and in addition, our annual January Show was one of the most successful in our history. We are, therefore, in an excellent position to cope with the poor economic conditions that our industry is facing at this time. Barring a further deterioration in the economy, or disruptions in production arising out of labour contract negotiations, 1981 should be a good year for the company.

Because of uncertainties in the North American economy for at least the next two or three years following 1981, we believe that the prudent approach is to plan our course cautiously. Major capital expenditures will be incurred only when necessary, or in those cases where management believes that there will be a high return on investment. We are confident that by proceeding carefully, and continuing to improve our marketing programs and manufacturing efficiencies, the company will continue to strengthen, even if the economy remains sluggish for the first half of the 1980's. Of course, if conditions improve, a more aggressive approach to growth may become appropriate.

I take considerable pride in identifying the fact that the four year turnaround of the company, culminating with the accomplishments of 1980, is a direct reflection of the high quality of the Sklar-Peppler people in all functions and at all levels. They accepted a difficult challenge with enthusiasm and confidence, and they certainly deserve to be commended for the successes they have achieved.

LOUIS SKLAR
President



February 23, 1981

SKLAR MANUFACTURING LIMITED

CONSOLIDATED TEN YEAR SUMMARY

(in thousands of
dollars except
per common share
calculations and
other statistics)

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
OPERATIONS										
Net sales (excluding discontinued operations)	\$69,795	\$59,634	\$51,907	\$47,401	\$47,082	\$41,404	\$43,429	\$38,116	\$28,213	\$19,753
Earnings (loss) before taxes and extraordinary items	5,006	2,677	1,765	(3,458)	(692)	(4,025)	1,093	4,276	3,071	949
Earnings (loss) before extraordinary items	2,611	1,424	950	(3,355)	(770)	(2,781)	385	2,377	1,597	462
Net earnings (loss)	3,127	2,677	1,879	(4,434)	26	(2,781)	385	2,377	1,770	640
CAPITAL EXPENDITURES										
	1,148	379	245	198	480	2,322	3,414	1,405	1,458	472
FINANCIAL POSITION										
Working capital	13,127	12,117	11,026	3,337	8,042	4,026	7,382	6,630	4,302	3,394
Current ratio	2.68:1	3.22:1	2.84:1	1.20:1	1.52:1	1.26:1	1.49:1	1.69:1	1.56:1	1.72:1
Fixed assets (net)	3,865	3,198	3,258	6,474	7,131	7,935	6,806	4,436	3,923	2,964
Total assets	25,617	21,885	21,436	26,338	30,747	27,765	29,153	20,621	15,891	11,064
Long term debt	7,800	10,000	11,700	7,952	8,973	5,885	4,291	1,943	1,868	3,110
Shareholders' equity	9,433	6,415	3,738	1,859	6,293	6,149	8,930	8,537	5,997	3,065
PER COMMON SHARE										
Basic net earnings (loss) before extraordinary items	1.09	0.59	0.40	(1.40)	(0.32)	(1.16)	0.16	1.02	0.72	0.25
Basic net earnings (loss)	1.30	1.11	0.78	(1.85)	0.01	(1.16)	0.16	1.02	0.79	0.35
Shareholders' equity	3.92	2.67	1.56	0.77	2.62	2.56	3.72	3.56	2.59	1.67
OTHER STATISTICS										
Approximate number of shareholders	1,360	1,500	1,900	2,100	2,150	1,900	1,900	1,900	1,700	1,800
Common shares outstanding at year end (000's)	2,408	2,403	2,403	2,403	2,403	2,403	2,403	2,400	2,319	1,836

SKLAR MANUFACTURING LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEARS ENDED
DECEMBER 31, 1980 and 1979

	1980	1979
Net sales	\$69,795,000	\$59,634,000
Operating costs and expenses		
Cost of goods sold	53,901,000	47,137,000
Marketing, general and administrative	10,107,000	8,523,000
Depreciation	481,000	421,000
Interest on long term debt net of interest income of \$591,000 (1979 - \$419,000)	300,000	876,000
	64,789,000	56,957,000
Earnings before income taxes and extraordinary income	5,006,000	2,677,000
Income taxes		
Current	1,566,000	1,253,000
Deferred	829,000	—
	2,395,000	1,253,000
Earnings before extraordinary income	2,611,000	1,424,000
Extraordinary income		
Reduction in current income taxes as a result of loss carry forward	516,000	1,253,000
Net earnings	\$ 3,127,000	\$ 2,677,000
Basic earnings per share (note 5)		
Before extraordinary income	\$ 1.09	\$.59
Net earnings	1.30	1.11

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of
Sklar Manufacturing Limited

We have examined the consolidated balance sheet of Sklar Manufacturing Limited as at December 31, 1980 and the consolidated statements of earnings, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Soberman, Isenbaum and Colomby
Chartered Accountants

Toronto, Canada
February 23, 1981

(Incorporated under the Laws of Ontario)

AS AT DECEMBER 31, 1980 and 1979

LIABILITIES AND SHAREHOLDERS' EQUITY

	1980	1979
Current		
Cash and short term deposits	\$ 3,929,000	\$ 3,196,000
Accounts receivable	7,372,000	5,959,000
Inventories (note 2)	9,438,000	8,259,000
Prepaid expenses	213,000	173,000
	20,952,000	17,587,000
Long term receivable (note 3)	800,000	1,100,000
Fixed - at cost		
Land	62,000	62,000
Buildings and leasehold improvements	4,018,000	3,727,000
Machinery and equipment	5,662,000	4,923,000
	9,742,000	8,712,000
Less: accumulated depreciation	5,877,000	5,514,000
	3,865,000	3,198,000
	\$25,617,000	\$21,885,000
Current		
Accounts payable and accrued charges	\$ 5,379,000	\$ 4,740,000
Income and other taxes payable	2,055,000	730,000
Dividend payable	121,000	—
Deferred income taxes - current	270,000	—
	7,825,000	5,470,000
Long term debt (note 4)	7,800,000	10,000,000
Deferred income taxes	559,000	—
Shareholders' equity		
Capital stock (note 5)		
Authorized		
3,500,000 common shares without par value		
Issued		
2,407,569 (1979 - 2,402,969 shares)	7,503,000	7,491,000
Retained earnings (deficit)	1,930,000	(1,076,000)
	9,433,000	6,415,000
	\$25,617,000	\$21,885,000

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board

Sam KH

Director

G. B. Street

Director

SKLAR MANUFACTURING LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

FOR THE YEARS ENDED
DECEMBER 31, 1980 and 1979

Deficit, beginning of year

1980
(\$1,076,000)

1979
(\$3,753,000)

Net earnings

3,127,000

2,677,000

2,051,000

(1,076,000)

Dividend

121,000

—

Retained earnings (deficit), end of year

\$1,930,000

(\$1,076,000)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED
DECEMBER 31, 1980 and 1979

Source of funds

Earnings before extraordinary income

\$ 2,611,000

\$ 1,424,000

Add charges not involving funds

Depreciation

481,000

421,000

Deferred income taxes

559,000

—

Loss on disposal of fixed assets

—

18,000

Funds provided by operations

3,651,000

1,863,000

Reduction in current income taxes as
a result of loss carry forward

516,000

1,253,000

Reduction in long term receivable

300,000

54,000

Issue of common shares on exercise of
employees' stock options

12,000

—

4,479,000

3,170,000

Application of funds

Additions to fixed assets - net

1,148,000

379,000

Repayment of long term debt

2,200,000

1,700,000

Dividend

121,000

—

3,469,000

2,079,000

Increase in working capital

1,010,000

1,091,000

Working capital, beginning of year

12,117,000

11,026,000

Working capital, end of year

\$13,127,000

\$12,117,000

See accompanying notes to consolidated financial statements.

SKLAR MANUFACTURING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1980

1 Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

(b) Translation of foreign currencies

Current assets and liabilities in foreign currencies are translated into Canadian dollars at the year end exchange rates. The exchange adjustment arising from such translation has been reflected in earnings.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first in, first out basis.

(d) Depreciation

Depreciation is provided in the accounts on the straight line method over the estimated useful lives of the fixed assets as follows:

Buildings —

20 - 40 years

Leasehold improvements —

over the unexpired terms of the leases

Machinery and equipment —

7 to 10 years

(e) Pensions

Substantially all of the company's employees are covered by company pension plans as well as by compulsory government plans. The unfunded past service obligation is being amortized annually to 1989.

(f) Leases

The company's leases qualify as operating leases and accordingly, all rental payments are expensed as incurred.

2 Inventories

These consist of:

	1980	1979
Raw materials	\$5,022,000	\$4,145,000
Work in progress	3,123,000	2,623,000
Finished goods	1,293,000	1,491,000
	<u>\$9,438,000</u>	<u>\$8,259,000</u>

3 Long term receivable

This is secured by a debenture and bears interest at prime plus 1%. The principal is payable as follows:

1981	\$ —
1982	100,000
1983	100,000
1984	100,000
1985	500,000

4 Long term debt

At December 31, 1980 this represented a bank income debenture with interest at 13/4% above one half of the lender's prime rate, the interest not deductible for income tax purposes.

On February 2, 1981 the income debenture was converted to a bank term loan with interest at prime plus 3/4%. The terms and conditions under the new term loan are outlined below and remain unchanged except for certain of the restrictions.

(a) Payments

Payments required to retire long term debt are as follows:

1981	\$ —
1982	1,600,000
1983	1,600,000
1984	1,600,000
1985	3,000,000

(b) Security

The long term debt is secured by accounts receivable, inventories and the long term receivable as well as a fixed and floating charge debenture on all other assets.

(c) Restrictions

The restrictions relating to the long term debt require the company to maintain both working capital and shareholders' equity of \$8,000,000 each. There are certain other conditions and restrictions including limitations on the purchase of fixed assets, lease commitments and dividend payments.

5 Capital stock

(a) Options

As at December 31, 1980, 123,400 common shares were reserved for possible issue under the 1979 Key Employees' Stock Option Plan at a price of \$2.52 per share.

SKLAR MANUFACTURING LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1980

These options may be exercised in annual amounts for six years and no shares subject to option may be purchasable after March 15, 1986. During 1980, options were exercised for the purchase of 4,600 common shares at a price of \$2.52 per share.

(b) Earnings per share

The exercise of all outstanding options would result in fully diluted earnings per share as follows:

Before extraordinary income	\$1.04
Net earnings	\$1.24

6 Remuneration of directors and senior officers

The total remuneration paid or payable by the company and its subsidiaries to its directors and senior officers amounted to \$652,000 in 1980 and \$602,000 in 1979.

7 Pension plans

Pension costs, including amounts for compulsory government pension plans, were \$775,000 in 1980 and \$637,000 in 1979. These amounts include current service costs and payments on account of the unfunded liability in respect of past service.

Based on the actuarial reviews in 1980 the unfunded liability for past service at December 31, 1980 amounted to approximately \$375,000.

8 Long term leases

The company is committed under long term operating leases with various expiry dates to 1995. Minimum rentals (exclusive of taxes, insurance and maintenance costs) for the next five years under these leases are approximately \$535,000 annually.

9 Comparative figures

Comparative figures for 1979 have been reclassified to conform to the 1980 presentation.

10 Subsequent Events

(a) Acquisition of Heintzman Limited (In Receivership)

On January 19, 1981 the company acquired all the outstanding common shares of Heintzman Limited, a company engaged in the manufacture of pianos. Details

of the acquisition, which is to be accounted for by the purchase method, are as follows:

Assets acquired, at fair value	
Current assets	\$ 180,000
Fixed assets	1,040,000
Future income tax benefits	575,000
	<u>1,795,000</u>

Liabilities assumed	
Current	\$225,000
Non-current	765,000
	<u>990,000</u>

Net purchase price to be settled for cash	<u>\$ 805,000</u>
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In addition to the losses recognized as future income tax benefits in the above purchase price there remains available loss carry forwards for income tax purposes of approximately \$2,070,000 for deduction against future profits.

(b) Reorganization of subsidiaries

On February 2, 1981 the subsidiary companies were reorganized with the result that Sklar Furniture Limited was wound up and its furniture manufacturing operations continued as divisions of Heintzman Limited.

(c) Showroom

In 1981 the company entered into an agreement to purchase 6.4 acres of land in Metropolitan Toronto for \$928,000 as a future showroom site.

